

Are Iranian banks undermining newfound trust by continuing to finance terrorism?

Banks in Iran are celebrating a degree of success in rebuilding their international networks but some continue to place that fragile trust (and their international clients' reputations) at risk by working with sanctioned entities and breaching anti-terrorism financing regulations. Meanwhile, businesses are cautiously optimistic after the US Congress missed its 60-day deadline to "snap back" Iranian sanctions, although the future of the JCPOA remains uncertain.

At the political milestone of completing 100 days into his second term, President Rouhani defended his administration's economic record. He claimed to have made good economic progress since the implementation of the JCPOA, pointing to the recovery in oil and gas condensate sales, foreign investment deals and international banking agreements. Indeed, a recently published report by the International Monetary Fund (IMF) suggested that the post-JCPOA economic recovery in Iran was beginning to extend beyond the oil sectors. But given the uncertainty of US financial sanctions, the IMF identified the banking sector as highly vulnerable and advocated urgent restructuring and recapitalisation to help the sector deal with tens of billions of dollars of bad debt.

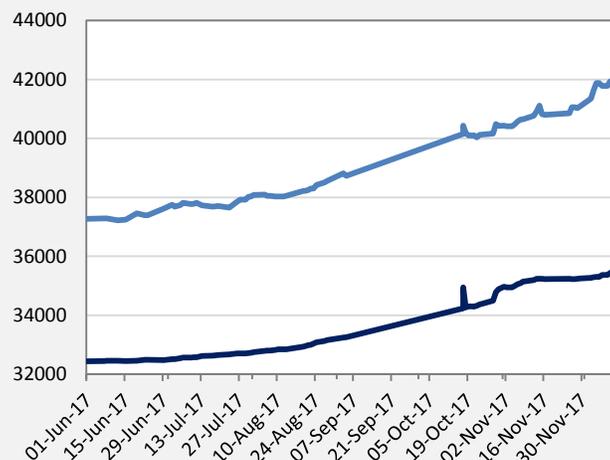
Reintegration into the international banking system is critical to economic stability and Iranian banks have charted some success

thanks to improved compliance with international standards on money laundering and terrorist financing. As the network of banks achieving an acceptable level of compliance grows, reintegration into the global financial system becomes more realistic. The Export Development Bank of Iran claimed to have re-established banking relations with 127 foreign banks via SWIFT – the universal financial messaging platform that was closed off under financial sanctions. In further measures the Central Bank is making headway in establishing its e-payments platform to international card systems.

But the fragile trust of international banks can quickly be undermined if their partners in the region are found to be covertly dealing with "black-listed" entities such as the Islamic Revolutionary Guards Corps (IRGC). Verity Iran's sources suggests that *Al-Bilad Islamic Bank*, a Baghdad based commercial bank, is accepting lucrative pay-offs to facilitate financial transfers from the IRGC to Hizbollah. The funds are allegedly being used for military operations in Lebanon. Such activity would be in clear breach of US anti-terrorism financing sanctions and would undermine the Iranian government's commitment to the Financial Action Task Force regulations. If these infractions are not exposed, it could be international banking partners that face expensive repercussions in the form of legal action and fines.

Fig 1. Rial to USD exchange rate

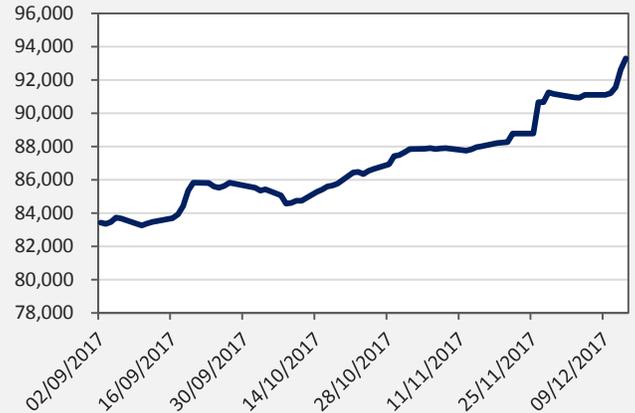
(Official (dark blue), market (light blue))



Following the US President’s “decertification” of the JCPOA in October, some expected the US Congress to “snap-back” sanctions. At the end of the 60-day window, no such decisions were taken. Iranian exporters are cautiously optimistic after very little progress was made in drafting an amendment to the US legislation relating to the deal. Analysts say this is was down to three factors: an unwillingness to take responsibility for the new legislation, partisan divisions and the persuasiveness of European diplomacy. US Senators were visited by European counterparts, seeking to inform them of the merits of the JCPOA and the alternative approaches that could be taken to strengthen its outcomes over time, without “tearing up” the agreement that currently stands. But the deal is far from safe. Lawyers are discussing whether the US President is required to certify the deal again in mid-January. And meanwhile, a bill was passed in Committee targeting Iran’s civil aviation sector. If passed through Congress, which is thought to be unlikely at this stage, this too could undermine the JCPOA deal in its own right.

Fig 2. TEDPIX (All Shares) Stock Index

01 Sept 2017 to present



Meanwhile, European leaders continue to robustly defend the deal in public and European businesses to cautiously live by its terms in private. Around 40 percent of Iranian crude exports were reportedly sold to the European Union in November, mostly via Shell, Total, Eni, Saras, Hellenic Petroleum and Repsol. Iranian officials met with the G5+1 signatories of the JCPOA nuclear deal on 13 December 2017 and reiterated their commitment to the agreement. In particular, to promote the normalisation of international trade and economic cooperation with Tehran in return for reciprocal commitments by Iran regarding its nuclear programme.

EU High Representative Federica Mogherini has referred to JCPOA implementation as an “absolute must” and a strategic priority for European security. President Rouhani also heard similar messages from the UK Foreign Secretary, who visited Tehran on the second stop of a regional tour. Mr Johnson was in the country to advocate on behalf of a British citizen and mother, Nazanin Zaghari-Ratcliffe, currently falsely imprisoned in Iran on suspicion of acts against the state.

